

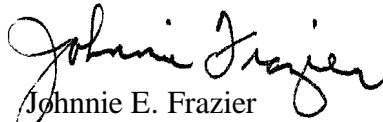


**UNITED STATES DEPARTMENT OF COMMERCE**  
**The Inspector General**  
Washington, D.C. 20230

March 19, 1998

**MEMORANDUM FOR:** William A. Reinsch  
Under Secretary for Export Administration

**FROM:**

  
Johnnie E. Frazier  
Acting Inspector General

**SUBJECT:** Audit of BXA's FY 1997 Financial Statements  
Audit Report No. FSC-9859-8-0001

The attached audit report presents the results of the audit of the Bureau of Export Administration's (BXA) Statement of Financial Position as of September 30, 1997, and the related Statement of Operations and Changes in Net Position for the year then ended. Also provided are reports on BXA's internal control structure and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by BXA.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited consolidated financial statement must be prepared covering all accounts and associated activities of each office, bureau, and activity of the Department. To facilitate the consolidated audit process, the independent certified public accounting firm of KPMG Peat Marwick LLP (KPMG) was contracted to audit BXA's FY 1997 financial statements. The Office of Inspector General defined the audit scope, oversaw the process of selecting the contractor, and oversaw the performance and delivery of the audit.

We commend BXA management on the significant progress achieved over the past year. In the opinion of KPMG, the Statement of Financial Position as of September 30, 1997, presents fairly, in all material respects, the financial position of BXA, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles. The results of the FY 1997 audit are in marked contrast to the results of the FY 1996 audit, in which KPMG issued a disclaimer and cited 10 reportable conditions, of which 8 were material weaknesses.

BXA received a disclaimer of opinion on the Statement of Operations and Changes in Net Position for the year ended September 30, 1997, because of the effects of the disclaimer of opinion in the previous year. The October 1, 1996, balances of assets, liabilities, and net position enter into the determination of FY 1997 net income from operations and changes in net position,

and it was not practical to extend procedures to audit those balances. Accordingly, the scope of the auditors' work was not sufficient to enable them to express an opinion on BXA's results of operations and changes in net position for the year ended September 30, 1997.

In its report on the internal controls over financial reporting for the FY 1997 financial statements, KPMG identified the following 2 reportable conditions, of which the first is a material weakness:

- Accounts payable and undelivered orders are not properly recorded/liquidated.
- The overview section is not adequately reviewed.

In its report on compliance with laws and regulations, KPMG identified the following instances of non-compliance:

- BXA did not report the above noted material weakness in its 1997 Federal Managers' Financial Integrity Act report.
- BXA's financial accounting system does not substantially comply with the Federal Financial Management Improvement Act in that: (1) its financial management systems do not support the preparation of timely, accurate financial statements; (2) transactions are not processed consistent with the Standard General Ledger account descriptions; and (3) the material weakness is an indication of noncompliance with applicable federal accounting standards.

Our office reviewed a draft version of BXA's overview to its FY 1997 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act of 1993, the legislation that requires government entities to collect and report information on their performance in meeting goals and objectives. We shared our observations and recommendations in a January 12, 1998, discussion paper and a subsequent meeting with BXA management. BXA was responsive to our observations and recommendations: the bureau subsequently revised the FY 1997 overview and indicated they will make additional improvements in future years.

The overview (1) identifies that BXA supports two of the three themes contained in the Department's *Strategic Plan*; (2) discusses financial results and condition, including the reporting of certain financial measures; (3) presents several output and some outcome measures, including the presentation of new measures for FY 1998; and (4) discusses management challenges, including its efforts to improve its performance measurement and reporting. However, BXA should still make improvements such as (1) increasing the utilization of outcome and cost-effectiveness measures; (2) listing an additional year's worth of data to facilitate trend analysis; and (3) strengthening the discussion of results (e.g., why target levels were or were not met).

In order to improve the usefulness of the overview to decision-makers, such as OMB and the Congress, we encourage BXA to address the observations contained in our discussion paper. Also, continued improvement will be needed for the overview to be consistent with OMB Bulletin

97-01, *Form and Content of Agency Financial Statements*, to “provide a clear and concise description of the reporting entity and its mission, activities, program and financial results, and financial condition.” The OIG realizes that improving the overview is an iterative process and encourages BXA to strengthen next year’s discussion of the bureau’s results.

We recognize BXA’s commitment to preparing high quality and meaningful financial statements. To continue to meet this objective, it will be necessary that the accounting requirements set forth in OMB Bulletin 97-01 are taken into consideration during preparation of the FY 1998 financial statements. Implementation of OMB Bulletin 97-01 will pose tremendous challenges for various reasons. In particular, this bulletin requires six statements to be prepared as compared to OMB Bulletin 94-01, which required two. One of the six statements, the Statement of Net Cost, requires BXA to report its costs by sub-organizations and programs, which should be based on the missions and outputs described in BXA’s GPRA strategic and annual plans, its budget structure, and the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*. As the federal government has not been required previously to report information in such a manner for financial and budgetary purposes, BXA will need to place appropriate emphasis on implementation of OMB Bulletin 97-01.

We encourage BXA’s management to continue to make concerted efforts to improve the internal control structure as the timely implementation of corrective actions will allow for the preparation of more reliable financial statements for FY 1998. BXA’s commitment to this goal is evidenced by its submission of an audit action plan, dated February 23, 1998, addressing the recommendations in the attached report. The Office of Inspector General concurs with BXA’s proposed audit action plan.

If you wish to discuss the contents of this report, please contact George E. Ross, Assistant Inspector General for Auditing, on (202) 482-1934, or Thomas McCaughey, Director, Financial Statements Contract Audits Division, on (703) 603-0301. We appreciate the cooperation and courtesies extended by BXA during this audit.

#### Attachments

cc: W. Scott Gould  
Chief Financial Officer and  
Assistant Secretary for Administration

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